

## Master Document – Audit Program

Activity Code 10100		Incurred Cost – Non-Major Desk Review
Version No. 2.1, dated February 2005		
B-1	Planning Considerations	
Purpose and Scope		
1. The purpose of an incurred cost review is to provide limited assurance that costs charged to auditable Government contracts are allowable, allocable, and reasonable in accordance with the contract terms and applicable Government acquisition regulations.		
2. This program is intended to provide for the proper planning, performance and reporting of the incurred cost review of a low-risk nonmajor contractor having \$15M or less ADV. The steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply in an efficient and effective manner with generally accepted government auditing standards and DCAA objectives. The program steps are intended as general guidance and should be tailored as determined by audit risk.		
Other Planning Considerations		
1. Upon receipt, the contractor's incurred cost submission should have been evaluated for adequacy using the FAO's standard procedures for performing this evaluation. If additional data was required, the submission should have been returned at that time. If the submission has not yet been evaluated for adequacy, this assessment should be accomplished prior to beginning the review. The adequacy assessment should be documented on the "Non-Major Contractor Incurred Cost Proposal Adequacy” checklist. DCAAP 7641.90, Information for Contractors, includes an example of an acceptable incurred cost submission.		
2. Each incurred cost proposal received and determined adequate by the FAO will be assessed for risk and the risk assessment will be documented. Then on the basis of this assessment, assigned to either the:		
a. high-risk pool of proposals to be audited; or		
b. low-risk pool of proposals to be sampled.		

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3. If there is a contracting officer request identifying significant risk associated with an incurred cost proposal, the proposal will be included in the high-risk pool. If an audit request is issued with no apparent risk, the auditor must contact the requester to understand the basis for the request. If after discussing with the contracting officer there is no risk identified, the proposal will be classified as low-risk. DCAA's desk review procedures applied to low-risk proposals not selected for audit should be explained to the contracting officer.
4. After two consecutive fiscal years at the same contractor are closed out using desk review procedures, the next year's proposal must be assigned to the high-risk pool of proposals to be audited. (However, see CAM 6-104.2c for classification when two or more low-risk proposals are received.)
5. If a contractor's ADV for a given CFY is less than \$500,000 and there are no audit leads with a high probability of significant questioned costs (i.e. cost impact of more than \$10,000) and an audit has been performed of either of the contractor's last two fiscal years' incurred cost proposals, then the contractor's incurred cost proposal for the CFY is low risk. No other factors need be considered, and the \$500,000 threshold applies to all contractors, unless we have no prior audit experience (e.g., preaward accounting system survey, proposal audit, establishment of billing rates). For new contractors where we have no prior experience, the incurred cost proposal should be classified as high risk.
6. If a contractor's ADV for a given fiscal year (CFY) is between \$500,000 and \$15 million and meets all of the following criteria, the proposal is low risk.
a. There are no significant questioned costs in the prior review. In determining significance, apply these guidelines:
(1) questioned costs with an impact of less than \$10,000 on flexibly priced Government contracts are generally not material, and
(2) questioned costs with an impact of \$10,000 or more may also be immaterial in certain circumstances (e.g., the questioned cost is isolated or nonrecurring).
b. There are no audit leads with a high probability of significant questioned costs. Consistent with the above guideline, the auditor will normally consider leads with a cost impact on flexibly priced Government contracts of less than \$10,000 to be immaterial.
c. We have incurred cost audit experience with the contractor.
d. Either of the last two fiscal years' incurred cost proposals has been audited.
7. The ACO should be notified of low-risk contractor classifications with documentation included in the working papers.
8. The Supervisory Auditor should determine that the procedures in this program and the supplemental steps added to it are tailored to meet the circumstances for the review being performed.

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<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
Version No. 2.1, dated February 2005		
1.	Review and attach the proposal adequacy checklist (Nonmajor Contractor Incurred Cost Proposal Adequacy).	
2.	Review the “Risk Determination for Contractor Years with \$15 Million or Less ADV” form to determine if the proposal is still low risk.	
3.	Coordinate low risk classification/desk review decision with the ACO.	
4.	Calculate the Government flexibly priced contracts percentages of the indirect expense bases using the schedule of direct costs by cost element from the contractor’s submission.	

<b>C-1</b>	<b>Review Procedures</b>	<b>WP Reference</b>
Version No. 2.1, dated February 2005		
1.	Ensure that a “Certificate of Indirect Costs” has been executed by the contractor and a copy is included in the working paper file.	
2.	Scan the proposal for unusual items, obvious potential significant questioned costs, compliance with special contract terms and conditions, and audit leads that need follow up.	
3.	Scan the proposal to determine if there are any significant changes from the prior year's proposal that need follow up.	
4.	Verify the mathematical accuracy of the contractor’s proposal.	
5.	Determine if the submission includes <b>significant</b> corporate/home office cost allocations and incorporate the corporate/home office audit results (this may require suspending the desk review until the corporate audit is complete).	
6.	Request that the contractor adjust its provisional billing rates for the year reviewed to match the review-determined rates. This step is accomplished by the paragraph in the rate agreement letter that directs the contractor to promptly submit adjustment vouchers or final vouchers for all flexibly priced contracts (see CAM Figure 6-7-2).	

<b>A-1</b>	<b>Concluding Steps</b>	<b>W/P Ref.</b>
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1.	Summarize results for supervisory review. Include the results of	

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corporate/home office audits.	
2. Obtain supervisory review of working papers.	
3. Prepare an indirect expense rate agreement letter for the review-determined rates (see CAM Figure 6-7-2). The rate agreement letter should advise the contractor to adjust the billing rates, as appropriate, based on the review-determined rates. If the rates will be negotiated by the contracting officer, proceed with the close-out report discussed below.	
4. Prepare a schedule of cumulative allowable costs by contract for use in accomplishing contract audit closing statements. Communicate with the contractor to have them provide this schedule whenever possible. Per CAM figure 6-7-2 , this schedule should be included as an attachment to the contractor's rate agreement letter and an enclosure to the report.	
5. Prepare the draft report to the ACO to report the review-determined/recommended rates and recommended direct costs. See CAM 10-507 for distribution.	
6. Update permanent files with the executed rate letter and cumulative allowable cost worksheet.	
7. Prepare and review accuracy of dollars examined, questioned costs, and sustained questioned costs amounts for DMIS reporting.	
8. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:	
a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.	
b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.	
c. Review the APPS exe file for temporary files. These files can be recognized by the "~\$" or "~WRL" at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.	
d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed	

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according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.	
e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.	
f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date	

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prominently on the CD label.	
k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
m. <b><u>Do Not File Sensitive Audits in iRIMS</u></b> : Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	